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October 24, 2011

Via Electronic Submission (reg-comm@fca.gov)

Gary K. Van Meter, Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Subject: Proposed regulations related to investment authorities (RIN 3052-AC50)

Dear Mr. Van Meter:

On August 18, 2011 FCA submitted a proposed rule outlining changes to regulations affecting Farm Credit Institutions investment authority and regulations. AgStar Financial Services, ACA would like to offer comments to the proposed regulation change. Although we support many of the updates in the proposed regulation we have concerns about some of the proposed language around Association investments and reporting processes that impact Association investments.

Proposed Rule or Comment

Accordingly, we propose to add paragraph (b) to § 615.5142. Paragraph (b) would require that before an association purchases an eligible investment for the purpose of managing surplus short-term funds, it must ensure that the investment's repricing and maturity characteristics match the characteristics of the surplus short-term funds to be invested.

RESPONSE:

We support the spirit of the paragraph as described but believe it is more appropriate to require the investment to fit within an Association's Board approved asset liability policies, which establish parameters for interest rate risk. These policies are well documented and reviewed by the board regularly based on current FCA regulations. FCA's examination process already includes a review board policies and interest rate risk, thus we believe an additional layer of regulation is not beneficial in this case. Farm Credit Banks also monitor Association interest rate risk through its general financing agreements or other operations. We believe this small difference, which creates some limited flexibility, is important to ensure Associations are able to participate in a dynamic market without undue regulatory burden.

Proposed Rule or Comment

In addition, although we do not propose this as a requirement at this time, we believe that in order for an investment to be made for the purpose of managing surplus “short-term” funds, the funds generally should be invested in instruments that are “overnight” or that have maturities of 30 days or less. We seek comment on whether we should define surplus short-term funds and if so, how. Further, is our belief that surplus short-term funds should only be invested in overnight investments or in investments with maturities of 30 days or less appropriate? Lastly, is our proposed limitation on the permissible characteristics of investments purchased for the purpose of managing surplus short-term funds appropriate for associations, or does it unreasonably restrict an association’s ability to properly hold and manage investments?

RESPONSE:

We do not support a narrowing of the definition of "surplus short term" funds. We believe this may ultimately limit the ability of an Association to effectively manage short term funds in situations in the future. We believe a strict 30 day time frame may unduly hamper an Association’s flexibility during a market disruption or other market event. Also, to the extent Associations are managing their own interest rate risk, this regulation would effectively require a bifurcation of the investment portfolio into interest rate risk and surplus short term fund investments which would significantly increase the reporting and cost burden.

We also believe this type of time limit would significantly hinder Associations from using current authorities to serve our mission to the agricultural and rural marketplace. Consistent with the System’s mission, FCA has previously authorized the use of surplus short-term funds to invest in USDA Guaranteed Investments and other guaranteed loans purchased in the secondary market¹. These investments result in enhanced liquidity for commercial banks and other lenders to serve agriculture and rural America. When managed appropriately, these investments of surplus short term funds have built regulatory capital benefitting current and future members which brings additional capital back to agriculture and rural America. These opportunities are not overnight or 30 days in length. To support the continuation of these investments, we encourage FCA to consider adding investing in mission related investments as a third purpose to hold investments, in addition to managing interest rate risk and managing short term surplus funds.

On the other hand, if there are specific instruments FCA believes should be excluded from association use, it may be useful for regulations to provide more specific guidance.

Proposed Rule or Comment

Also, should our regulations require stress-testing on all investments at the time of purchase? If not, on which investments should we require stress-testing, and why? Should institutions be required to stress test their individual investments and their entire investment portfolio on a quarterly basis? Why or why not?

¹ FCA communication issued June 30, 2011 by Gary Van Meter, USDA Guaranteed Investments. December 9, 2010 Bookletter 064 and a letter dated October 17, 2006 by Office of Regulatory Policy authorizing zero percent capital risk weight of guaranteed portion of loans purchased in the secondary market.

Response

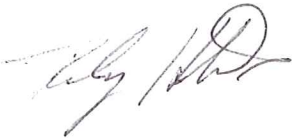
AgStar does not believe that stress testing all investments at the time of purchase is necessary. We would support stress testing on all non government guaranteed investments at the time of purchase. This stress test would encompass areas where significant risk is being taken but not on fully government guaranteed securities where additional administrative burden will only further reduce the return generated on the investment.

Thank you for the opportunity to provide comments on this important issue. If you have any questions on the information provided, please feel free to contact either of us.

§ 615.5174 Farmer Mac securities

We see the proposed revisions to stress testing Farmer Mac securities as an improvement to existing requirements which require the stress testing of Farmer Mac mortgage securities. FCA is proposing that a stress test is not required if the Farmer Mac mortgage securities held by a System institution are backed by loans it originated. We see this proposed revision as an appropriate improvement to existing requirements.

Sincerely,



Rod Hebrink
SVP, Chief Financial Officer



Jase Wagner
VP, Capital Management